

**STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765**

REVIEW REPORT
OF
FAMILY AND SOCIAL SERVICES ADMINISTRATION
STATE OF INDIANA
March 1, 2003 to February 29, 2004

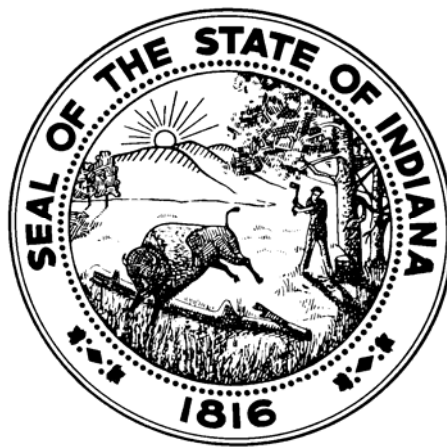


TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Agency Officials.....	2
Independent Accountant's Report	3
Review Comments:	
Statewide Single Audit.....	4
Inconsistent Procedures	4
County Offices of Family and Children – Accounting Operations.....	4
County Offices of Family and Children – Contracts and Procurement	4-5
Monitoring	5-7
Developmental Disabilities Controls	7-12
Attendance Reports	12
Child Care Development Fund (CCDF) – Intake Agents	12
Federal Penalties for Failure Under Data Reliability Audits (DRA) – Child Support	13
Exit Conference	14
Official Response	15-23

Office

Official

Term

Secretary

Mr. John Hamilton
Ms. Mary DePrez (Acting)
Ms. Cheryl Sullivan
Ms. Venita Moore

07-01-01 to 09-30-03
10-01-03 to 10-19-03
10-20-03 to 12-17-04
12-18-04 to 01-09-05



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF FAMILY AND SOCIAL SERVICES ADMINISTRATION

We have reviewed the receipts, disbursements, and assets of the Family and Social Services Administration for the period of March 1, 2003, to February 29, 2004. Family and Social Services Administration's management is responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports.

Based on our review, nothing came to our attention that caused us to believe that the receipts, disbursements, and assets of the Family and Social Services Administration are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State Agencies, and applicable laws and regulations except as stated in the review comments.

STATE BOARD OF ACCOUNTS

December 1, 2004

FAMILY AND SOCIAL SERVICES ADMINISTRATION
REVIEW COMMENTS
February 29, 2003

STATEWIDE SINGLE AUDIT

In conjunction with our review of Indiana's Family and Social Services Administration, we also tested compliance with federal regulations and grant agreements. Findings relating to the federal programs administered by the department are included in the Indiana Statewide Single Audit for the year ended June 30, 2003.

INCONSISTENT PROCEDURES

Family and Social Services Administration (FSSA) is made up of three divisions which were formerly independent agencies. We stated in our eight prior reports (most recently B19502 and B21357) that the three divisions' policies and procedures in accounting activity were inconsistent and incompatible within the present structure. We noted during prior audits that progress had been made through the implementation of standardized processes, communication through manuals and memos, etc. However, there are still various accounting software systems in use. Due to the size and diversity of FSSA's accounting operation, the lack of a standardized system reduces management's control over the accounting operation and the ability to quickly and consistently correct deficiencies and weaknesses when identified.

An agency's accounting responsibilities must include an effective accounting system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

COUNTY OFFICES OF FAMILY AND CHILDREN - ACCOUNTING OPERATIONS

As stated in our six prior reports (most recently B19502 and B21357), we observed that the county offices of Family and Children were not consistent in the manner in which they implemented their accounting operations. Some appear to be more accurate and efficient than others. Through further inquiry we found that there is not an operations manual for these offices, though periodic memos are sent.

Subsequent to our review period we noted that a manual had been developed and distributed for the counties' use. Also, evidence was provided that basic training had begun.

An agency must have internal controls that provide reasonable assurance for the effectiveness and efficiency of operations. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1) Formal procedures in writing help to facilitate this goal.

COUNTY OFFICES OF FAMILY AND CHILDREN - CONTRACTS AND PROCUREMENT

As stated in our prior reports (B19502 and B21357), we found that it was common practice at the county offices of Family and Children not to utilize contracts when appropriate or to follow the State procurement process.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records. . . . Among other things . . . safeguarding controls over cash . . . are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

FAMILY AND SOCIAL SERVICES ADMINISTRATION
REVIEW COMMENTS
February 29, 2003
(Continued)

The Division of Family and Children at FSSA is in the process of implementing policies and procedures to help ensure the compliance by the county offices of Family and Children with proper procurement and contract usage. FSSA established interim guidelines to be used during the 2002 and 2003 years that the Agency recognizes are not fully in compliance with either state statutes or the Division of Family and Children Policy Directive, but are being utilized to help transition these offices.

MONITORING

Overview of Prior Finding

State agencies have accounting responsibilities which include maintaining a control environment and maintaining control procedures. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1) Monitoring is an important method which helps to ensure that these responsibilities are met. Additionally, many federal grants require program monitoring by the administrative recipient.

As stated in our six prior reports (most recently B19502 and B21357), we noted several serious deficiencies in FSSA's monitoring system. It should be remembered that monitoring is not just a control to help ensure compliance with laws, regulations, and contracts, but also a control to help evaluate the validity of claims to the State, to help prevent fraud, and to help increase the effectiveness and efficiency of programs. In order to do this, monitoring must be not only a review of what has occurred at the end of a contract but what is occurring while the contract is ongoing.

As noted in the prior report, it is evident that these issues are being considered and some progress has been made in addressing some of these issues, especially in regard to the Audit Services area (see items D and E). However, the deficiencies noted in prior reports do remain to a significant degree and have resulted in federal audit findings as well as current review comments (see also State of Indiana Single Audit for the year ending June 30, 2003).

We noted the progress and continued monitoring deficiencies in the prior report. As there have not been significant changes during the current review the current comment remains the same as the prior (we have addressed each issue as outlined in the prior reports):

Prior Finding Items A and B (Agency-Wide Monitoring Weaknesses)

- A. The agency does not have standard requirements for internal monitoring. This includes:
 - 1. Lack of formal definition as to what is subject to monitoring.
 - 2. Lack of standard requirements for the various types of program monitoring.
 - 3. Lack of standard requirements for the review of outside financial or A-133 reports.
- B. The coordination of the agency's subrecipient monitoring is disorganized and at times non-existent. Several areas within FSSA perform key elements of the monitoring function (i.e., the individual program areas, audit services, the budget area, etc.). However, because of the lack of an agency-wide monitoring process, the impact of these areas on one another for monitoring purposes is unclear. Also, a comprehensive risk assessment for subrecipient monitoring cannot be performed.

FAMILY AND SOCIAL SERVICES ADMINISTRATION
REVIEW COMMENTS
February 29, 2003
(Continued)

Current Status Items A and B

In January of 2000, FSSA began to document its comprehensive monitoring plan that includes what is subject to monitoring. The monitoring plan attempts to include the monitoring practices of each program. To date this monitoring plan is incomplete. As a result, the lack of standard requirements has not been effectively addressed. Only after the majority of program monitoring practices have been documented and evaluated can relevant standard requirements be implemented.

FSSA has taken the first steps in the recognition and organization of an agency-wide monitoring process (i.e., FSSA does have standard requirements for the review of outside financial and A-133 reports). However, until the various areas, including fiscal management and budget, are evaluated and the various monitoring functions that each area contributes are integrated, significant weaknesses in the monitoring process will remain.

Prior Finding Item C (Agency-Wide Monitoring Weakness)

- C. The agency does not have a monitoring policy for contracted process servers.

Current Status Item C

We found no change for this item.

Prior Finding Items D and E (Audit Services Weaknesses)

- D. It is generally recognized that internal audit is a representative of top management. The job of internal auditors is to investigate and to appraise the internal control systems, both accounting and administrative, as well as review the compliance and the efficiency with which various units are performing their functions. The internal auditors then report their findings and make recommendations to top management.

Currently, the main function of FSSA's audit services section's audit staff appears to be the monitoring of program compliance at the Division of Family and Children's (DFC) local offices and the monitoring of contract compliance. In addition, when deemed necessary, special reviews within the agency have occurred. It was noted in our prior report that the purpose of the audit services section had not been clearly defined. For example:

1. The function of the audit services section has not been defined in writing.
2. The authority of audit services section is unclear.
3. The audit services section is not utilized consistently across division lines.
4. The audit services section is not utilized consistently in decision making processes such as contract needs, subrecipient requirements, and subrecipient monitoring.

FAMILY AND SOCIAL SERVICES ADMINISTRATION
REVIEW COMMENTS
February 29, 2003
(Continued)

5. The audit services section reports to a senior manager who answers directly to the agency head. This senior manager also is in charge of many fiscal responsibilities. If the audit services section is to perform internal audit functions, even on a limited basis, a greater degree of freedom, independence, and objectivity would be achieved if this section reported directly to the agency head or to a senior manager who does not also have fiscal or program responsibilities.
- E. FSSA is an extremely large and complex agency. In such an agency internal control is achieved in greater part through the organizational independence of accounting, operation, and custodial departments. Due to a constantly changing environment, the organizational structure can and does change. An ideal independence as described above may at times be lost. For example, currently claims management, procurement, fixed asset control, and audit services are under the same director. While this is not an ideal structure compensating controls can be implemented. If it is determined that monitoring of DFC offices and contracts are to be the main functions of the audit services section, consideration should be given to developing an internal audit section with the characteristics described in section D. This would enhance the current internal control structure at FSSA as well as minimize the problems inherent when an ideal organizational structure is not achieved.

Current Status Items D and E

FSSA has changed their organizational structure to include a new position entitled Assistant Secretary. This position reports directly to the Secretary and does not have immediate program or fiscal responsibilities. Audit Services now reports directly to this position. In addition, Audit Services has become more clearly defined and is now composed of two different units: Contract Compliance and Quality Assurance. Contract Compliance retains the traditional responsibilities associated with the Audit Services Division while the Quality Assurance is taking on the responsibilities associated with internal auditors (i.e., the evaluation and recommendation toward various agency areas and their functions). It is through this unit, in part, that FSSA plans to develop integration of their various divisions and bureaus for a complete monitoring system.

The functions of the Audit Services Division has now been defined in writing. However, until the evaluation of the integration aspects of the agency-wide monitoring system has been completed, the impact of this area's function and lines of responsibility will remain unclear.

DEVELOPMENTAL DISABILITIES CONTROLS

Overview

The Bureau of Developmental Disabilities Services (BDDS) is a part of the Division of Disability, Aging, and Rehabilitative Services (DDARS) within FSSA. BDDS is responsible for the planning and administration of services in community based, residential alternatives for those who meet the criteria of developmentally disabled. The major goal of the Bureau is to support independent living in the least restrictive setting possible for the recipient. To fulfill its goal a variety of services are offered through approved providers. These services include residential habilitation, community habilitation, personal assistance, sheltered employment, and behavior intervention. In addition, funding for living expenses such as rent and utilities may also be awarded. The major funding sources are Medicaid (which consists of various Medicaid Waiver programs), Title XX, and State appropriations. In our prior reports, B19502 and B21357, we found control weaknesses in the validation of claims paid and in the assurance process of the appropriateness and necessity of services.

FAMILY AND SOCIAL SERVICES ADMINISTRATION
REVIEW COMMENTS
February 29, 2003
(Continued)

It is evident that these control weaknesses are being considered and progress made. However, the deficiencies noted in the prior reports do remain to a significant degree. We noted the corrective actions that took place during the period ending February 28, 2003, (report B21357) and during our current review period when applicable.

Claims Payments

Background

The claims payment system used by FSSA to pay the service provider depends on the funding source for the service provided. Regardless of the system used, the service providers are to maintain sufficient documentation to support the claims that are presented to the State for payment of services. FSSA does not request this documentation at the time of payment for validation. Instead, FSSA relies on monitoring controls. Monitoring controls vary according to funding source as described below.

Medicaid Waiver Funding as Stated in Original Finding

Medicaid Waiver is Medicaid funding that is available to a Medicaid eligible individual who would be institutionalized without special services. There are various waiver programs that have specific allowable services, depending on the goal of that waiver program. FSSA determines if a recipient is eligible for a waiver program. An Individualized Support Plan (ISP) is then developed which details the specific services that the recipient is allowed to receive within the waiver program. The only claims that the provider should present to FSSA are those based on the specific services identified in the ISP.

FSSA utilizes a contractor, EDS, to process Medicaid claims, including Medicaid Waiver. We found that EDS does monitor to determine if a recipient is eligible for the waiver program being billed and if a provider is eligible to receive a particular type of waiver program payment, but EDS does not monitor to determine if a specific service is allowed for a particular recipient.

All Medicaid payments are subject to review through a monitoring process that is conducted by a contractor, Health Care Excel. However, due to the volume of Medicaid payments and the method of selection, the probability of a Medicaid Waiver payment being selected is very low.

Status for Report Period Ending February 28, 2003

Beginning November 1, 2002, the policy is for EDS to pay for a service only if the State has authorized the service prior to delivery.

Current Status

We found no change.

FAMILY AND SOCIAL SERVICES ADMINISTRATION
REVIEW COMMENTS
February 29, 2003
(Continued)

Title XX as Stated in Original Finding

Title XX funding is to provide for services that are identified as community day services. The recipient has been approved as meeting the criteria for developmentally disabled. The recipient may or may not be Medicaid eligible, but if Medicaid eligible the recipient is not considered to be at risk of institutionalization if services are not received. The recipient may or may not have a plan that stipulates which of these types of services are needed. A plan would be available only for those recipients who are also receiving State funding for residential services or Medicaid Waiver funding. Funding is not budgeted according to the recipient but is paid out to the provider as claimed. Some services have a limit on the number of units allowed per recipient, but this is tracked by the provider.

Current Status

We found no change.

State Funding as Stated in Original Finding

State funding is provided for services that are identified as community residential services. The recipient may or may not be Medicaid eligible, but if Medicaid eligible the recipient is not considered to be at risk of institutionalization if services are not received. When a recipient is determined eligible and a plan of services developed, a line item budget (Individual Community Living Budget or ICLB) is established. The provider claims for these services are paid through FSSA's Financial Management. Financial Management monitors claim payments to verify that the amounts claimed are identified in the ICLB and the amounts requested are not over the monthly amounts budgeted.

Current Status

Surveys that included monitoring for appropriate services were implemented. Exceptions found during the surveys require corrective action.

Claims Payment Summary as Stated in Original Finding

We found that the monitoring for the validation of claims is limited at best. Financial Management's monitoring of residential services claims does provide timely indicators that a specific service is allowable and that the claim does not exceed the budgeted amount. However, except for the monitoring provided by Audit Services, there is no tracing to supporting documentation which would help give assurance that the claim is appropriate and reasonable. EDS's process is even more limited in that the specific service allowed for a recipient is not identified. There is no substantial verification of the validity of day service claims at the time of process.

Medicaid Waiver, residential service, and day service providers are subject to on-site review by FSSA's Audit Services. When a provider is selected, Audit Services does review for allowable costs and sufficient supporting documentation. However, as provider selection is a risk based approach, not all providers will have an on-site review. In addition, Audit Services reviews transactions after the close of the contract period. While this may be used as one part of a system of assurance of the validity of claims, it is not a timely method and does not guarantee that all providers will be adequately reviewed.

FAMILY AND SOCIAL SERVICES ADMINISTRATION
REVIEW COMMENTS
February 29, 2003
(Continued)

Status for Report Period Ending February 28, 2003

Medicaid waiver policy now does not allow for payment without verification that FSSA has approved a specific service for a recipient before delivery. Residential and day service payments did not have significant changes during the audit period. However FSSA provided documentation to support that planning for monitoring changes did occur. Also, evidence was provided that additional monitoring processes had been implemented for residential services.

FSSA contracted with EDS to perform on-site reviews of Medicaid Waiver providers starting in January 2002. All waiver providers will have on-site reviews. These reviews will expand from the review of DD Waivers to incorporate other types of waivers. These reviews include the examination of supporting documentation. Initially, these reviews have found significant occurrences of documentation that does not support services billed and documentation errors (scratch outs, white out/alterations, etc.). The first phase of this review process is intended to be educational and to give providers an opportunity to make corrections and changes to their processes. Residential service providers and day service providers may be the same providers as selected by EDS for waiver reviews, but these claims are not included in the population examined. It is policy for results of these reviews to be shared with Audit Services.

Current Status

It is now policy for the Bureau of Quality Improvement Services to coordinate reviews with EDS.

Appropriate and Necessary Services as Stated in Original Finding

To help assure that the services that a recipient receives are appropriate and reasonable, FSSA requires that the recipient have a plan and a budget for the services required by the plan. Each recipient has a team that develops the plan. Two key members of the team are the service coordinator and the case manager.

The service coordinator is a State employee located at a BDDS district office. The coordinator determines eligibility, approves the individual community living budget, has placement authority and works with the recipient to plan, coordinate, and access appropriate services.

The case manager is an advocate for the recipient. The case manager assists the recipient in obtaining the needed services and help plan, monitor, and evaluate the recipient's services on an on-going basis. FSSA also relies heavily on the case manager to monitor that the recipient is actually receiving the services required and that the services are appropriate. Case management services may be provided by Area Agencies on Aging (AAA), local service providers, or independent case managers. Though some case management services may initially be provided by a State employee through the BDDS district office, in general case managers are not State employees.

We found that there was no quality assurance reviews of the services performed by either service coordinators or case managers. We also found that there is a potential for conflict of interest when the case manager is employed by the same entity that also provides other types of services to recipients.

We found that not all recipients have a plan or a case manager. While the service coordinator may take on more responsibilities in these circumstances, we did not find compensating controls that would provide assurance that the recipient was receiving appropriate and reasonable services.

FAMILY AND SOCIAL SERVICES ADMINISTRATION
REVIEW COMMENTS
February 29, 2003
(Continued)

Subsequent to our report period ending June 30, 2001, we found that the newly developed Bureau of Quality Improvement Services (BQIS) (started in late 2000) had developed a provider and case management standard annual survey as well as other surveying techniques. In addition, the case managers are to fill out a case management ninety day checklist that is easily accessible by both BQIS and BDDS through a data base and subject to periodic reviews.

Status for Report Period Ending February 28, 2003

As stated above, surveys were developed and checklists subject to periodic review were implemented. Both of these allow for monitoring by FSSA of case managers and providers. In addition, if an entity employs case managers and also provides other services to recipients, that entity is required to submit a plan demonstrating how they will assure that there is no conflict of interest. However, FSSA does not have a specific process in place to verify the implementation of this plan. There was no change in status for the control weaknesses found for those recipients without a case manager.

Current Status

We found no change.

Providers with Fiduciary Responsibilities to Recipients as Stated in Original Finding

At times the service provider may have fiduciary responsibilities directly to the recipient (i.e., the provider is payee for the recipient's benefits or the provider is responsible for the receipt and deposit of recipient's living expenses from the State). FSSA requires that the provider keep accounting records to support transactions made by the provider on behalf of the recipient and that these records be identifiable to the recipient. We found the monitoring of this by FSSA to be very limited.

Current Status

The BQIS have included in their survey an inquiry concerning recipients' perceived satisfaction of how their money was handled and whether there was documentation. However, the surveyors did not have training or guidelines as to what would be appropriate and what resulting steps to take. BQIS is now working on a detailed financial review worksheet that is to be filled out by the case manager and incorporated with the ninety day checklist.

Overview as Stated in Original Finding

There are significant control weaknesses over developmental disabilities. Claims are not validated on a timely basis and audit checks before payment of Medicaid Waivers and day service are inadequate. Also, day service is not adequately controlled to ensure that services provided are appropriate and necessary. There are not sufficient controls in place to address the conflict of interest of service providers when case management is one of those services. There is no quality assurance in place to help ensure that service coordinators are consistent across the State. Finally, FSSA's oversight of the service providers' fulfillment of fiduciary responsibilities to recipients is limited. Activities subsequent to our review period indicate that the Agency is aware of some of these weaknesses and is taking steps to strengthen controls.

FAMILY AND SOCIAL SERVICES ADMINISTRATION
REVIEW COMMENTS
February 29, 2003
(Continued)

Current Status

There are still significant control weaknesses over developmental disabilities. However, there has also been significant progress with the implementation of the new payment policy for Medicaid Waivers as well as increased monitoring tools through surveys.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

ATTENDANCE REPORTS

As stated in our prior report (B21357), we observed that employee attendance reports were signed and dated prior to the last day worked. We also observed instances with either no supervisor signature or supervisors' signature before the date signed by the employee.

Employee attendance reports should not be signed, dated or approved prior to the last day worked in a pay period. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 9)

CHILD CARE DEVELOPMENT FUND (CCDF) – INTAKE AGENTS

FSSA has contracted with intake agents to perform recipient eligibility determination for the CCDF program. Payment for this service is a flat monthly fee of \$18 per active case file.

FSSA's Bureau of Childhood Development (BCD) staff (program monitors) conducts annual on-site monitoring of the intake agents. While on site, the monitors select a sample of eligibility records for review. The monitors verify whether the sampled files contain complete and accurate documentation of the CCDF applicant's eligibility.

Through inquiry we found that FSSA does not have a process in place to recoup the unallowable costs to providers that were found as a result of the aforementioned testing. FSSA does collect from the intake agent an \$18 per month penalty for each file that remains deficient. However, this leaves the State with the potential liability to the Federal Government for any unallowable costs paid to providers that exceed the penalty. We also found that there is no process in place to expand testing for additional unallowable costs when there are indicators that this could be a significant issue with a particular intake agent. It is planned that FSSA's Audit Division will use the program monitors findings as part of their risk assessment when determining which intake agents that they will go to perform on-site visits. However, as this has not occurred during our review period, it is unclear how this will impact monitoring for additional potential unallowable costs.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

FAMILY AND SOCIAL SERVICES ADMINISTRATION
REVIEW COMMENTS
February 29, 2003
(Continued)

FEDERAL PENALTIES FOR FAILURES UNDER DATA RELIABILITY AUDITS (DRA) – CHILD SUPPORT

Congressional enactments amended the child support provisions of the Social Security Act to establish new systems for measuring state performance, awarding financial incentives and assessing penalties based on that performance. Federal Fiscal Year 2000 (FFY00) was the first year for implementing the new incentive system. States earn incentives based on their performance on the following five Child Support Enforcement performance measures, the first three of which, if not met, are subject to penalties:

Paternity Establishment
Support Order Establishment
Current Collections
Cases With Payment on Arrearages
Cost-effectiveness

Incentives are calculated based on annual performance within the state and are paid from a growing "incentive payment pool" that is shared among other qualifying states each year starting in FFY00. In order for a state to receive any incentives, Federal auditors from the Department of Health and Human Services (DHHS) must determine that the data used to calculate the performance measures are accurate, complete and reliable, through a data reliability audit (DRA). A penalty is assessed if the state is unable to pass its DRA for any measure, or fails to attain a specified level of performance in the above three penalty performance measures. If the state fails for a second consecutive year to meet either condition with respect to the same performance measure, the penalty is imposed.

Indiana failed to pass the ninety-five percent DRA standard in FFY01 in the measures of Paternity Establishment, Support Order Establishment, and Current Collections, as reported by DHHS in July 2002, and again in November 2002. This resulted in the state failing to qualify to receive all available incentive payments for FFY01 based on these measures.

The state, again, failed to pass the ninety-five percent DRA standard for Paternity Establishment for FFY02, resulting in the assessment of a penalty of \$1,447,594 (one percent of the adjusted State Family Assistance Grant (SFAG) for FFY 01) to be imposed quarterly beginning with the first quarter of FFY04 under provisions of 45CFR262.1(b) through (e). The adjusted SFAG is the amount of the TANF award for the year, reduced for transfers to the Child Care Development Fund (CCDF) and the Social Services Block Grant (SSBG). The state will be required to expend funds in an amount equal to the penalty during FFY05. The penalty will continue to be applied quarterly until the state successfully passes the ninety-five percent DRA standard in Paternity Establishment.

In summary, by failing to pass the ninety-five percent DRA standard in FFY01, and again in FFY02, the state has incurred:

- a reduction of its share of federal funds from the "incentive payment pool",
- a reduction of federal funds for the TANF program in the amount of \$1,447,594 as a penalty, and the state is required to make up the amount of the lost federal funds with its own state funds for use in the TANF program.

Each agency, department, institution or office should have internal controls in effect, which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

FAMILY AND SOCIAL SERVICES ADMINISTRATION
EXIT CONFERENCE

The contents of this report were discussed on December 16, 2004, with Ms. Cheryl Sullivan, Secretary of the Family and Social Services Administration. The official response has been made a part of this report and may be found on Pages 15 through 23.

A copy of the report was mailed on December 16, 2004, to Mr John Hamilton, former Secretary of the Family and Social Services Administration.



*"People
helping people
help
themselves"*

Joseph E. Kernan, Governor
State of Indiana

Indiana Family and Social Services Administration

402 W. WASHINGTON STREET, P.O. BOX 7083
INDIANAPOLIS, IN 46207-7083

Cheryl G. Sullivan, Secretary

To: Charles Johnson III, State Examiner
State Board of Accounts

From: Venita J. Moore, Acting Secretary
Family and Social Services Administration

Date: January 4, 2005

Re: Response to State Board of Accounts' Compliance Audit for period ending
June 30, 2004

Attached you will find FSSA's response to the State Board of Accounts compliance audit for the period ending June 30, 2004. Should you or your staff have any questions regarding the information submitted, please contact me at 232-1194 or Debra Short, Director, Audit Service at 232-1217.

Attachment

cc: Policy Staff
Debra Short

www.IN.gov/fssa
Equal Opportunity/Affirmative Action Employer



30% POST-CONSUMER FIBER



PRINTED WITH
SOY INK



Inconsistent Procedures

Auditee Contact Person: Karen Kinder
Title of Contact Person: Director of Budget and Finance
Phone Number: (317) 234-0197

As we have responded for the last several audit periods, The Family and Social Services Administration (FSSA) agrees that a standardized system to account for and track the financial activity of the agency is necessary to enhance management's control over the accounting operation. FSSA continues to make progress in the standardization of policies, procedures and processes for the accounting and tracking of revenues and expenditures. The most recent standardization completed this calendar year is the transfer of processing all non-governmental claims payment through the Contract Management System (CMS). Prior to this standardization, payments were made in both the Claims Management section and in the Financial Management section.

Additionally, FSSA continues to evaluate the possible use of the Government Management Information System (GMIS). However, it must be noted that only \$5 million of the estimated \$13 million in necessary funds to implement GMIS has been identified.

FSSA will continue to insist that all policies, procedures and processed are consistent across all Office of Budget and Finance accounting activity areas.

County Offices of Family And Children – Accounting Operations

Auditee Contact Person: Karen Kinder
Title of Contact Person: Director of Budget and Finance
Phone Number: (317) 234-0197

The Family and Social Services Administration (FSSA) and the Division of Family and Children (DFC) agree that all county offices should be consistent in the manner in which they implement their accounting operations. To ensure that this occurs, the agency required that each county office have an operations manual (copy available upon request). Additionally, FSSA is pursuing the development of a statewide county accounting system (CAS) and plans to have something in place by the end of calendar year 2005.

County Offices of the Division of Family and Children--Contracts and Procurement

Auditee Contact Person: Stephen DeMougin
Title of Contact Person: Director, Division of Family & Children
Phone Number: (317) 232-4705

The following progress has been made to ensure the proper usage of contracts and procurement procedures:

Phase One

The Department of Administration waived the requirement to develop County contracts for dollar values \$25,000.00 or below.

Phase Two

Child Welfare IVB Parts 1&2 and Independent Living services with effective start dates of 10/1/04 were written as consolidated contracts that requires providers to adhere to IVB and IL contract language, once IVB and IL funds are fully utilized and County funding kicks in. Contracts contain standardized State boilerplate language with maximum rates of reimbursement.

Phase Three

State Residential Master contracts will be written with Providers at the State level within the next six to twelve months. We are currently in contract discussion with the providers and County Directors. Contracts will contain standardized State boilerplate language with maximum rates of reimbursement.

Phase Four

This represents the balance of agreements that are not covered under Phases 1 - 3. Office of General Counsel is in the process of developing standardized language for these contracts, with implementation targeted for in the next six to twelve months. DFC plans to develop these contracts in-house.

Monitoring

Auditee Contact Person: Debra Short
Title of Contact Person: Deputy Director, Audit Services
Phone Number: (317) 232-6859

Prior Finding Items A and B (Agency-Wide Monitoring Weakness)

In the spring of 2003, planning began for an Agency-wide review of all of FSSA's 157 program areas. A questionnaire was sent with some basic internal control and contract questions. In the fall of 2003, the actual reviews began. All programs were reviewed and reports were issued by August 2004. Based on the findings and risk assessment completed as a part of the reviews, the next phase included a review of sub-grantees of the programs rated as having the highest risks. Approximately thirty of these audits have

been completed (as of December 2004). In addition, the 157 program areas have submitted corrective action plans, which have been reviewed and either accepted or found to be inadequate and returned to the program area for further consideration. Additional high risk program areas will be focused on during the next calendar year.

It is expected that an agency-wide review will be completed every three years. The scope of these reviews will be tweaked and the corrective actions from the previous findings will be reviewed. While monitoring is always going to be an on-going process, FSSA believes that the procedures currently in place to ensure the Agency's monitoring process should satisfy this part of this finding.

Prior Finding Item C (Agency-Wide Monitoring Weakness)

ICES, ISETS and ICWIS

Each of the following major computer systems, ICES, ISETS and ICWIS, administered by FSSA through the use of contracted vendor services is overseen by its own steering committee which is composed of senior FSSA program and DTS management, and includes the participation of vendor senior management.

Moreover, each of these systems is contractually required to meet Service Level Agreements that guarantee system availability and performance of the application. Service Level Agreements and contractual development activities are monitored formally through the use of monthly status reports. The most recent monthly status reports for the month of November are available which illustrate the detailed level of system monitoring provided on a regular basis. These reports are required to be delivered by each vendor under the terms of their respective contracts with FSSA.

ACS

ACS is the vendor that is used for attendance tracking and claims payment of child care services. It is also overseen by its own steering committee which is composed of senior FSSA program, financial management and DTS members and includes the participation of vendor senior management. There is also a CORE group that meets biweekly that includes program middle management staff, financial management staff, audit staff and vendor management.

Program staff, financial management staff, and audit staff review numerous reports, prepare reconciliations, and offer recommendations for additional red flag reports or other enhancements that increase the effectiveness of the monitoring the vendor and the child care providers. The Steering Committee makes the final decision on the enhancements to the system.

FSSA Audit Services has been involved in the testing of the system, and has reviewed voucher level adjustments, system level adjustments and ACH transfers. Audit Services has also reviewed voucher usage, inactive vouchers, and swipe denied reports.

EDS

OMPP exercises monitoring over its fiscal agent contractor through a prescribed change control process for the MMIS, including issue identification and classification, initial review process, priority process, and contract reporting. Recently the State initiated a web-based repository of change-order information. As required, EDS electronically submits status changes and hours billed each week. The State approves each Client Service Request (CSR) and denotes the appropriate CSR classification – Maintenance or Modification. If the CSR is classified as a maintenance system change, the State will approve the severity level and determine whether the CSR will be worked according to the standards set by the maintenance level matrix or be deferred for consideration by the priority committees. The outcome of the review is documented in the State's CSR Tracking system.

Also, OMPP requires contractor-supplied project managers that coordinate initial review and priority meetings. The project managers also supply formal project management for medium and large system changes. The CSR tracking system generates monthly billing reports that are used to insure billings are appropriate and changes are worked according to established priorities. Many change order review meetings are held each month.

Priorities and work in progress are reviewed by the appropriate business area, bi-weekly for claims, and monthly for managed care change orders. These meetings occur less frequently for other business areas, since the other areas do not have as many pending change orders. The Fiscal Agent and Related Services Contractor and State staff will attend the meeting and provide supplemental information to assist in determining the final rankings. The Contractor will capture the priority rankings and enter into the CSR tracking system. System changes are worked, to the degree possible, according to the priority rankings. Global Priority meetings have recently been suspended to reconsider methods for ranking change orders across business areas. Plans for the upcoming year include a new process to deal with change order priority on a global basis, such as organizing a change-review committee that would have designated members representing the business areas.

OMPP requires EDS to report on progress of modification and maintenance change orders, and prioritization considerations. This report is reviewed every two weeks by state and contractor business and systems staff. EDS provides on-line access to the State's CSR System and associated files to State, the fiscal agent and other contractors.

Prior Finding Items D and E (Audit Services Weaknesses)

This audit has recognized the change in organizational structure, the written functions and charter of Audit Services, and the utilization of Audit Services across division lines. However, since the agency wide comprehensive monitoring was not complete during the timeframe of this audit period, this part of the audit finding was still cited. Since the first two phases of the FSSA's Comprehensive Agency Wide review has now been completed, it is believed that we have satisfied this part of this finding. It should be noted, however, that with a new administration taking office in January 2005, Audit Services will need to

be involved in reviewing significant structural and policy changes in order to advise of any potential weaknesses that could occur.

Developmental Disabilities Controls

Auditee Contact Person: Kristen Schunk
Title of Contact Person: Acting Director, DDARS
Phone Number: (317) 232-7905

Medicaid Waiver Funding:

The changes and progress outlined in the previous response remains valid action items; however, in some instance, the completion dates were extended. Below are the new completion dates for items not completed:

- Implementation of Bulletin # BT200305 (recoupment process) was delayed. FSSA began the recoupment process on July 1, 2004.
- The processing of adding all waivers to the Prior Authorization data base will be fully implemented by September 10, 2004.
- Additionally we are currently working on the systems consolidation project with the Division of Technology Services and waiver budgets/case management is included in that project. The expected start date for the consolidation project is February of 2005.

It is important to note that the State Board of Accounts original finding in this area states that an Individualized Support Plan (ISP) is developed which details the specific services that the recipient is allowed to receive on the waiver. The Cost Comparison Budget (CCB) was not mentioned in the finding. The CCB is the document that details the specific services that an individual can receive. It is also important to note that the original finding indicated that Health Care Excel does the waiver provider audits. EDS is responsible for those audits.

Title XX and Validation of Adult Day Service (Title XX) Claim:

The Bureau of Developmental Disabilities Services plans to put in place a system to approve services for each recipient and billing will be based on that approval. This will be similar to the process used for the Individual Community Living Budget (ICLB) for State Funding of residential services. This will allow for the verification of the validity of day service (Title XX) claims at the time of processing. This was initially scheduled to be completed by July 2003, but that process has been delayed. After the selection of the vendor, a timeline for completion will be made. Additionally, we are currently working on a systems consolidation project with the Division of Technology Services and the Title XX recipient case management is included in that project under the case management portion.

FSSA is in the early planning stages for design of an integrated service authorization/claims payment system for Title XX. In the interim we established a process to collect claims information by individual. In order to accomplish the verification of billing against the proper funding source, each provider must submit an electronic submission of a report indicating by client the services being billed on the claim. This was put in place on July 1, 2003.

State Funding:

This is a correction to what was stated in the previous response. The previous response stated that Financial Management ensures that we are not paying for more services than were approved. However, this is not the case. Each person has an ICLB, which establishes a specific dollar amount of services that are approved, and the provider can only bill up to that point. Claims of more than the approved amount will get kicked out automatically by the system.

Also, we are currently working on a systems consolidation project with the Division of Technology Services and an ICLB component is included in that project.

Claims Payment Summary, Appropriate and Necessary Services, Providers with Fiduciary Responsibilities to Recipients:

No changes to previous response.

It is important to note that the State Board of Accounts original finding stated that FSSA audit services reviews waiver providers. However, it should be noted that these audits are completed by EDS. FSSA Audit Services primarily only tests for duplications of service billings between waiver and other funding sources for those providers selected for audit that have multiple funding sources including waiver.

Attendance Reports

Auditee Contact Person:	Karen Kinder
Title of Contact Person:	Director of Budget and Finance
Phone Number:	(317) 234-0197

The Family and Social Services Administration agrees that employee attendance reports should not be signed, dated or approved prior to the last day worked in a pay period. To reinforce that proper procedures are followed, the central office sends out a broadcast message to all of FSSA staff quarterly. This broadcast message provides a step by step procedure for filling out an A-4. Additionally, it is the intent of central office payroll to monitor, spot check and provide training to all county payroll offices during calendar year 2005.

Child Care Development Fund (CCDF)—Intake Agents

Auditee Contact Person: Stephen DeMougin
Title of Contact Person: Director, Division of Family & Children
Phone Number: (317) 232-4705

FSSA has contracted with intake agents to perform recipient eligibility determination for the CCDF program. Payment for this service is a flat monthly fee of \$18 per active case file.

FSSA's Bureau of Childhood Development (BCD) staff (program monitors) conducts annual on-site monitoring of the intake agents. While on site, the monitors select a sample of eligibility records for review. The monitors verify whether the sampled files contain complete and accurate documentation of the CCDF applicant's eligibility. This annual monitoring helps minimize the risk of ineligible applicants being enrolled, or being enrolled for an extended period of time.

If an intake agent fails to assure due diligence in the gathering and entry of data, and as a consequence ineligible people are enrolled on the programs, FSSA/BCD will hold the intake agent accountable. The intake agent will be placed on a probationary status for a first offense and monitored monthly for a three month period. The monthly monitoring will include a review by FSSA/BCD Quality Assurance staff of corrected actions and a sample of past and current files to determine if there are additional unallowable costs. FSSA will provide technical assistance and/or training for the Intake agent to remedy identified problems.

A second offense will result in the intake agent being held responsible for full repayment for unallowable costs and probationary status as defined above. A third offense will result in the termination of the intake contract and the case will be referred to the Bureau of Investigation for potential prosecution.

If the intake agent is determined to have provided false information or attempted to defraud FSSA, the intake agent contract will be terminated and the agency will be referred to the Bureau of Investigation for potential prosecution.

It is planned that FSSA's Audit Services will use the program monitors' findings as part of their risk assessment when determining which intake agents that they will go to perform on-site visits. However, as this has not occurred during this review period, it is unclear how this will impact monitoring for additional potential unallowable costs.

Federal Penalties for Failures Under Data Reliability Audits (DRA)—Child Support

Auditee Contact Person: Stephen DeMougin
Title of Contact Person: Director, Division of Family & Children
Phone Number: (317) 232-4705

Through the diligent efforts of the leadership of the Bureau of Child Support all federal performance requirements were met for Federal Fiscal Year 2003 and no sanctions will be imposed. A system is in place which, in the future, should help in avoiding fiscal penalties.